

**STATEMENT OF
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OF THE
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON BENEFITS
UNITED STATES HOUSE OF REPRESENTATIVES
SEPTEMBER 25, 2003**

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Disabled American Veterans (DAV) regarding the Department of Veterans Affairs (VA) Life Insurance Program. The 1.2 million members of the DAV are veterans who incurred service-connected injuries or illnesses as a result of their military service to our nation.

The DAV appreciates the Subcommittee's bipartisan efforts to ensure the VA Life Insurance Program is fulfilling its intended purpose, which is to provide life insurance coverage to service-disabled veterans who cannot purchase commercial insurance at standard rates. Many disabled veterans rely on the VA as their only source of life insurance.

Background of VA Insurance Program

Men and women serving in the United States Armed Forces face a much higher risk of death or debilitating injuries than most of their fellow citizens. Historically, private sector insurance companies have been unable or unwilling to provide affordable coverage for such a large number of high-risk clientele. Disabled veterans especially have faced difficulty and uncertainty when attempting to purchase life insurance.

The government began bridging the gap between the lack of insurance coverage and the needs of servicemembers during World War I. Government life insurance policies had already been established just prior to the war for merchant mariners and ship owners, via the War Risk Insurance Act. The War Risk Insurance Act was amended to include a provision for voluntary life insurance for members of the Armed Forces. VA data indicates that nine out of every ten soldiers, sailors, and marines opted for the maximum coverage of \$10,000. This enormous response and level of acceptance made the United States government the largest provider of life insurance in the nation.

The government continued to insure servicemembers and veterans during World War II and Korea. Prior to the war in Vietnam, the government reduced its operation to avoid competition with commercial companies' newfound interest in selling life insurance to veterans. However, the government was unable to withdraw from the insurance business completely because commercial insurers still refused to provide coverage for disabled veterans, who were

still considered high risk. As such, private companies began covering ordinary risks while the government continued its responsibility for higher indemnities associated with disabled veterans.

Currently, five VA life insurance programs remain open to new issues; however, only two of the five open programs are administered by the VA. Both of these programs, Service-Disabled Veterans Insurance (SDVI) and Veterans' Mortgage Life Insurance (VMLI), are specifically designed for disabled veterans.

SDVI is life insurance for veterans with service-connected disabilities. Congress created the program in 1951 via Public Law 82-23 to provide life insurance to service-connected disabled veterans at standard rates. The basic program, which is called "RH Insurance," insures eligible veterans up to \$10,000. A supplemental policy, called "Supplemental RH Insurance," gives certain disabled veterans extra coverage of up to \$20,000. VMLI is mortgage life insurance for veterans who are so severely disabled that they qualify for a home adaptation grants.

Even with a narrow focus on a specific category of veterans, the VA insurance program is immense. According to their most recent data from 2001, the VA was the 7th largest insurer in the country, with 5 million individuals insured for \$761 billion.

VA Insurance Program Administration

The VA Regional Office and Insurance Center in Philadelphia manages the government life insurance programs. For the insurance programs that are administered directly by the VA, the Insurance Center in Philadelphia is responsible for:

- collecting premiums
- processing policy actions (change of address, loans, cash surrenders, etc.)
- paying death and disability claims
- performing all actuarial functions
- formulating policy, plans and procedures
- evaluating performance of the insurance program and
- designing, developing, installing and maintaining application software which supports the life insurance programs.

The Insurance Center also supervises the Servicemembers' and Veterans' Group Life Insurance programs, which are administered by Prudential Insurance Company of America.

Despite a daunting level of responsibility, the Insurance Center has established a very efficient and timely operation. Policies for RH Insurance are normally approved or disapproved within 1 to 3 months after application. The time frame for approval/disapproval of an application for Supplemental RH Insurance is 1 month and VMLI is effective immediately upon approval of a specially adapted housing grant. The Insurance Center pays death claims within 3 days, and loans and cash surrenders within 2 days.

Over the past 12 months, 95 percent of veterans responding to surveys conducted by the Insurance Center rated its performance as satisfactory or better. The Insurance Center's consistent delivery of excellent customer service was also recognized in a national study by the American Customer Satisfaction Index. The index measures customer service among both private and public companies. The Insurance Center's most important function, death claims processing, scored a 90 on a scale of 100. The Insurance Center's score far exceeds both the private insurance sector's score of 71 and the federal government-wide score of 69.

The Insurance Center was also the recipient of the 2002 Secretary of Veterans Affairs, Robert W. Carey Quality Award. Presented annually since 1992, the Carey Award is VA's highest and most prestigious award for organizational effectiveness and performance.

In addition to its impressive record of efficiency, the Insurance Center consistently searches for ways to improve benefits and reduce costs for veterans. On July 1, 2003, the monthly premium for SGLI was reduced from 8 to 6.5 cents for every \$1,000 of coverage, a 19 percent reduction. Last October, VGLI premiums were reduced for veterans ages 40-59. This was the third VGLI premium reduction since 1999. As a result, veterans pay 40 percent less for VGLI coverage than they did 4 years ago.

The Insurance Center also ensures that all casualty claims from Operation Enduring Freedom and Operation Iraqi Freedom are specially-controlled and are paid within 48 hours of receipt of claim.

The DAV is quite pleased with the operational issues regarding VA insurance. The program is administered effectively and the VA Insurance Center should be commended for upholding its responsibilities in such a proficient manner.

VA Insurance Program Proposals

Increase SDVI Coverage and Lower SDVI Premium Rates

Despite the efficient manner in which the VA Insurance Program is administered, the program falls far short of delivering the protection it was originally intended to provide. Government life insurance programs have limited basic coverage to \$10,000 since their inception under the War Risk Insurance Act in 1917. Then, they were an excellent benefit. More than 93 percent of military members adopted the maximum coverage of \$10,000 because they knew that in the event of their death, their family members would have financial resources available to pay for the cost of a home and living expenses for a considerable amount of time. For example, Sears, Roebuck and Co. sold prefabricated houses in the early 1900's by mail-order. Its 1920 catalogue featured 80 models, ranging in price from \$4,904 to \$629. Obviously, \$10,000 went much further in 1917 than it does in 2003.

According to the United States Census Bureau, median housing costs in 2001 were in excess of \$1000 per month. At such levels, a VA insurance claim would be grossly insufficient as a source of security income. A surviving spouse and dependents would not be able to afford housing for even one year. The United States Bureau of Labor Statistics inflation calculator

indicates that \$10,000 in 1917 would equate to more than \$106,000 of purchasing power in today's market. In 1917, \$10,000 was greater than the average annual income for a member of the United States Congress, in 2003, an annual income of \$10,000 is slightly above poverty level. Clearly, the original intent of VA insurance has been almost entirely forgotten.

Legislation should be enacted to amend title 38, United States Code, § 1922(a), to increase the amount of insurance coverage available under SDVI. Year after year, delegates to the DAV National Convention have adopted resolutions supporting such an amendment. DAV members believe that our nation owes a great debt to veterans, especially those who are so disabled by service-connected conditions that they cannot qualify for life insurance. It is our government's responsibility to ensure that injuries related to military service are fully compensated.

The views of the DAV regarding VA insurance are shared by many of our fellow veterans' service organizations. Each year for the past 17 years, the DAV has joined the Veterans of Foreign Wars, the Paralyzed Veterans of America, and AMVETS, in developing *The Independent Budget* (IB). The IB is a collaborative effort to predict the needs of veterans in the coming fiscal year. For a number of years, the IB has called upon Congress to enact legislation to increase the maximum protection under base SDVI policies to at least \$50,000.

In 1998, the VA issued a report titled the "Program Evaluation of Benefits For Survivors of Veterans With Service-Connected Disabilities" which found that the \$10,000 basic coverage is inadequate. The report also noted that SDVI premiums are much higher than standard commercial rates because they are based on outdated mortality tables. In order to address these concerns, the report recommended that legislation be proposed to increase SDVI coverage to \$50,000 and to lower SDVI premiums by basing them on the 2001 CSO Mortality Table (the table currently used by the National Association of Insurance Commissioners).

The DAV supports increasing the face value of SDVI, along with basing SDVI premiums on current mortality tables. In accordance with title 38, United States Code, § 1922 (a), SDVI premiums are based on 1941 mortality tables. Because life expectancy has improved since the inception of the SDVI program, premiums based on the higher mortality rates of 1941 no longer fulfill congressional intent to provide life insurance to service-connected disabled veterans at standard rates. As noted in the VA's report, disabled veterans are paying higher premiums than today's standard rates. Disabled veterans should not be subsidizing the higher cost of insurance caused by their own service-connected disabilities. Mortality tables should be revised as recommended by the Program Evaluation of Benefits For Survivors of Veterans With Service-Connected Disabilities.

Increase VMLI Coverage from \$90,000 to \$150,000

The VA provides severely disabled veterans, who have received grants for specially adapted housing, with up to \$90,000 of VMLI. VMLI is intended to pay off the outstanding balance of the mortgage in the event of the veteran's death. Currently, this amount covers only about 75% of outstanding mortgage balances because the maximum amount has not been

increased in more than a decade. VMLI was last adjusted on December 1, 1992, when it was raised from \$40,000 to \$90,000.

Veterans who are so severely disabled that they qualify for a home adaptation grant should not have their mortgage insurance reduced by the simple passage of time. The DAV, in concurrence with the other members of the IB, recommends that the maximum coverage be increased to at least \$150,000. At this level, VMLI would cover 93 percent of outstanding mortgage balances.

In addition to increasing the amount of coverage available under VMLI, the DAV recommends extending eligibility for VMLI to disabled veterans who are rated as permanently and totally disabled.

Exclude VA Life Insurance Benefits from Income Determinations

Eligibility for certain Federal benefit programs is based upon limits to financial resources. Individuals whose assets exceed such limitations are not eligible to participate in such programs. Under current law, the cash value of a VA life insurance policy is considered a liquid asset in determining eligibility for other needs-based government programs. As a result, some disabled veterans surrender their policies in order to reduce their assets and qualify for these programs. For example, some disabled veterans must surrender their VA life insurance policies to qualify for nursing home care under Medicaid.

The Government created life insurance programs to allow disabled veterans to maintain coverage despite their disability. The intent was for veterans to maintain policies so that their dependents would have financial security in the event of the veterans' death. Surrendering policies to qualify for other Federal benefits clearly runs counter to the original intent regarding these policies. Veterans should be able to maintain their modest VA life insurance policies to cover the expenses of burial and for other purposes, without being excluded from other Federal benefits.

The DAV urges the committee to pass legislation to exempt the dividends and proceeds from VA life insurance policies from being counted as income for purposes of eligibility for other government programs.

Provide an Open Period to Apply for SDVI

Disabled veterans can apply for SDVI within one year from the date the VA grants service connection. Many eligible veterans, because of financial difficulties and problems associated with readjustment to civilian life, do not apply within the 1 year eligibility period. After the transition to civilian life is complete and greater financial stability is attained, many disabled veterans are able to afford SDVI but are not able to purchase comparable insurance coverage in the private sector.

The DAV urges the committee to pass legislation that would authorize an "open period" for eligible service-connected disabled veterans to apply for coverage under SDVI.

Summary

On behalf of the 1.2 million members of the DAV, I thank you for the opportunity to present our views on the VA Insurance Program. The Subcommittee's efforts to improve VA benefits illustrates to our nation's disabled veterans that their dedicated service and sacrifices are not forgotten. Clearly, the DAV's mission to improve the lives of disabled veterans is shared by the Subcommittee. We appreciate your efforts and look forward to working together on future issues.